CHAPTER 5

BUDGETARY TRENDS AND FISCAL POLICY

Introduction

5.1 Arresting the pace of inflation, while maintaining the tempo of investment in vital core sectors of the economy has been the major concern of fiscal policy of the Central Government in the last two years. Because of the exceptionally difficult circumstances prevailing in these two years, Government's efforts to reconcile the requirements of stability and growth have so far had a limited impact.

5.2 Notwithstanding the efforts made to reduce all avoidable government expenditures, including some development expenditure of relatively low priority, and large scale mobilisation of resources through taxation and internal and external borrowings, the fiscal gap in the Central and State budgets in 1973-74 was as large as Rs. 775 crores and had to be met by deficit financing. Favourable expectations which prevailed at the time of the presentation of the Budget for the year 1974-75, however, soon turned out to be short-lived and the subsequent developments in the economy, characterised by acceleration of inflation, and stagnant agricultural and industrial output, called for more drastic measures on fiscal and monetary fronts. Thus, the year 1974-75 witnessed unprecedented efforts at mobilisation of resources as well as certain new measures designed to contain the inflationary situation. Even with all these efforts, the budgetary outlook for 1974-75 still continues to be unfavourable and the budgetary deficits of the Central and State Governments are unlikely to be contained within limits laid down at the time of presentation of these budgets.

Budgetary Developments in 1973-74

5.3 At the time of the presentation of the 1973-74 Budgets by the Central and State Governments, it was estimated that their combined gap between the total outlay and current revenues would be Rs. 2985 crores; but according to the revised estimates, this gap got widened to Rs. 3483 crores, indicating a deterioration of Rs. 498 crores. Whereas the increase in Government outlay in the revised estimates over the budget estimates was of the order of Rs. 558 crores, the improvement in current revenues was only marginal at Rs. 60 crores, mainly on account of the deterioration of Rs. 124 crores in Railways' finances—from a budgeted surplus of Rs. 24 crores to a deficit of Rs. 100 crores in the revised estimates, and due to a decline of Rs. 107 crores under union excise duties. The decline in collections from union excise duties was inspite of the doubling of the rate of excise duty on motor spirit in November, 1973 which was expected to yield an additional revenue of Rs. 50 crores in the remaining months of 1973-74. The unsatisfactory trend of union excise duties was due both to stagnation in industrial production and the fact that even now a substantial part of excise revenue accrues from specific rather than *ad-valorem* duties, whose incidence declines as prices increase. In some areas, the revised estimates of current revenues showed a significant improvement over the budget estimates such as, sales tax (Rs. 90 crores), income and corporation taxes (Rs. 41 crores), state excise duties (Rs. 35 crores), and taxes on passengers and goods carried by roads (Rs. 20 crores). Much of this improvement in revenue collections could directly be ascribed to the

TABLE 5.1

Budgetary Transactions of the Central and State Governments

(Rs. crores)

	1972-73 (Accounts)	1973-74 (B.E.)	1973-74 (R.E.)	1974-75 (B.E.)
I. Total Outlay	**11,242**	**11,838**	**12,396**	**14,196**
(a) Developmental	6,647*	7,024	6,825	8,579
(b) Non-developmental**	4,595	4,814	5,571	5,617
II. Current Revenues	**8,075**	**8,853**	**8,913**	**10,607**
III. Gap (I-II)	**3,167**	**2,985**	**3,483**	**3,589**
Financed by:				
(i) Draft on voluntary domestic private savings	2,015	2,224	2,184	2,561
(ii) Draft on foreign savings	286	452	509	887
(iii) Foreign assistance earmarked for refugee relief	14	..	..	..
(iv) Budgetary deficit	852	309	790 (543†)	141

*Excludes notional entry of Rs. 48 crores on account of conversion of loan capital into equity capital in respect of public undertakings.

**Excludes contingency fund transactions of the Central and State Governments (Rs. (—) 34 crores in 1972-73, Rs. (—) 12 crores in 1973-74 (B.E.), and Rs. 2 crores in 1973-74 (R.E.).

†As per accounts. For different concepts of deficit financing, refer to footnote on page 25.

inflationary price rise.

5.4 As for the increase in total outlays, it might be recalled that due to the late submission of the report of the Third Pay Commission, the budget estimates for 1973-74 could not make the necessary financial provision in this respect, and, as such, a part of the increase in expenditure in the revised estimates for 1973-74 is attributable to this factor. Though the increase in total outlay was only Rs. 558 crores, the increase in non-developmental expenditure was as much as Rs. 757 crores, which was partly offset by a decline of Rs. 199 crores in developmental expenditure. The latter decline resulted from the decision taken in August, 1973 to cut overall expenditure by as much as Rs. 400 crores as part of a package of anti-inflationary measures. Since the scope for effecting economies in expenditure of non-development nature was limited, regretably, much of the cut had to be under developmental heads. Even so, enough care was taken to see that the core sector of the Plan and the projects in an advanced stage were not affected. The increase of Rs. 757 crores in non-developmental expenditure was mainly under technical credits (Rs. 232 crores), defence (Rs. 153 crores), food subsidy (Rs. 121 crores), interest payments (Rs. 95 crores), and drought relief (Rs. 92 crores).

5.5 The disparate movement in outlays and revenues in the revised estimates raised the overall budgetary deficit of the Central and State Governments from the budget estimates of Rs. 309 crores to Rs. 790 crores in the revised estimates. This was in spite of the fact that net market borrowings of the Centre were higher than the budget figure by Rs. 146 crores and net collections from small savings and external assistance showed an improvement of Rs. 25 crores and Rs. 57 crores respectively. However, State Governments' market borrowings were lower by Rs. 39 crores and miscellaneous capital receipts also showed a decline.

5.6 The actuals for 1973-74 published subsequently revealed that the actual budgetary deficit was much lower than in the revised estimates. This was, however, due largely to such fortuitous factors as lower spending by defence and the railways due to the time lag in the disbursements of the arrears of pay and allowances by the implementation of the recommendations of the Third Pay Commission, improvement of about Rs. 43 crores in revenue from customs, increase of Rs. 100 crores in net collections from small savings, accelerated repayment of technical credits by about Rs. 55 crores and some shortfall in other expenditures mainly due to the delay in implementing the recommendations of the Third Pay Commission. On the other hand, revenue from union excise duties turned out to be even lower than the revised estimates. The net effect of these factors was that while the States' deficit widened from Rs. 140 crores (BE) to Rs. 175 crores (Actuals), the budgetary deficit* of the Centre was lower at Rs. 368 crores compared to Rs. 650 crores in the revised estimates. The combined budgetary deficit of the Centre and States thus amounted to Rs. 543 crores in 1973-74. But deficit financing, which is a more appropriate measure of the economic impact of the Government's operations, was still as high as Rs. 775 crores. This was on account of the substantial support extended by the Reserve Bank to the Central Government loans.

Budgetary Developments in 1974-75

5.7 The year 1974-75 has proved to be another crisis year for the economy. The budget for 1974-75 had to be framed in the background of severe inflationary pressures coinciding with highly uncertain outlook for agricultural and industrial output as well as for the balance of payments, in the wake of steep increase in oil prices in January, 1974. The immediate thrust of the budget, therefore, was to impart a measure of stability to the economy while seeking to provide adequate investible resources to the selected core sectors such as agriculture and coal. Determined efforts were made to cut down reliance on deficit financing. In consonance with this objective, the combined budgetary deficit of the Central and State Governments was kept at a modest level of Rs. 141 crores as compared to Rs. 790 crores in the revised estimates for 1973-74.

5.8 The combined budgetary provision for development outlay in the Central and State budgets for 1974-75 was Rs. 8579 crores, implying a step-up of 26 per cent over the revised estimates of 1973-74, whereas the latter had shown an increase of only 2.7 per cent over the actuals of 1972-73. While this increase in development outlay was in itself impressive, a part of this increase is accounted for by the change in the concept of Plan outlay, which beginning from the Fifth Plan, among other things, also includes current replacement and renewal expenditures of Government enterprises as well as certain relief expenditures which add to capital assets. The provision for the plan in 1974-75 in the Central budget amounted to Rs. 2966 crores and showed an increase of 20 per cent over the revised plan outlay of about Rs. 2500 crores in 1973-74. Here again, the conceptual difference mentioned above has to be kept in view while making a comparison. Together with the State and Union territory plans, which include State Government enterprises, the total plan outlay for 1974-75 amounted to Rs. 4844 crores.

*Budgetary deficit as per accounts referred to in the *Economic Survey* comprises the Centre's deficit as measured by net increases in the holding of treasury bills by the RBI and variation in cash balances, and States' deficit as measured by ways and means advances (net) from the RBI and variation in their cash balances. The Centre's deficit so defined is a measure of the net variation in the Central Government's short-term indebtedness to the RBI and differs from the concept in the budget documents according to which the budgetary deficit equals net increase in floating debt (i.e. net sale of Tresasury Bills not only to RBI but also to all other parties such as State Governments, commercial banks, etc.) and variation in cash balances; this amounted to Rs. 319 crores in 1973-74.

According to the plan concept, deficit financing includes, besides the overall budgetary deficit as referred to in the Economic Survey, the RBI's transactions in long-dated securities and is broadly equivalent to the net increase in Governments' total indebtedness to RBI as revealed by monetary data. The two magnitudes may however differ due to the fact that the final accounts of Government are closed about three weeks after the end of the fiscal year and as such the change in cash balances as emerging from budget documents includes end-year fiscal adjustments whereas no such adjustment is made in monetary data.

5.9 Keeping in view the need to restrict budget deficit to the minimum, the provision made for non-developmental expenditure in the 1974-75 budgets was confined mainly to contractual and other inescapable expenditures and accordingly showed a nominal increase of only one per cent over the 1973-74 revised estimates. This compares with an increase of 21 per cent shown in the revised estimates of 1973-74 over 1972-73 accounts. However, this negligible increase in non-development expenditure in 1974-75 budget was also partly due to insufficient provisions having been made in respect of certain expenditures, especially in respect of food subsidy and liability towards payments of additional dearness allowance that would become payable with the rise in the Consumer Price Index. As shall be pointed out later, these provisions had to be increased substantially, subsequently.

5.10 On the revenue side, the Central budget provided for additional taxation yielding a net revenue of Rs. 185 crores (after transferring to States Rs. 26 crores of their share and allowing for a post budget concession of Rs. 1 crore). Of this amount, Rs. 165 crores (net of States' share) were sought to be raised by way of union excise duties, levied mainly on intermediate products and on items consumed by better off sections of the population and Rs. 20 crores from custom duties. Furthermore, in order to compensate for the increased wage outlays and other rises in costs, freight rates and passenger fares of the railways were raised to increase the railways' earnings by Rs. 136 crores. Rates on postal, telephone and telegraph services were also revised to improve their receipts by Rs. 43 crores in 1974-75. In all, therefore, the additional resource effort of the Central Government proposed in February, 1974 aggregated Rs. 390 crores including States' shares. Additional taxation effort of the State Governments in their budgets for 1974-75 was also appreciably higher at Rs. 155 crores compared to Rs. 41 crores in 1973-74.

5.11 Evolving a tax system conducive to higher rates of growth and a reduction in inequalities of income and wealth has been engaging the attention of the Central Government for quite some time. The several recommendations of the Direct Taxes Enquiry Committee (Wanchoo Committee) have been progressively implemented in an effort to rationalise the existing system. The budget for 1974-75 incorporated one of the major recommendations relating to personal income tax. One of the major administrative problems of tax administration in India has been large scale avoidance and evasion, particularly of personal income taxation, and this is partly attributed to high marginal rates. Following the Wanchoo Committee recommendation in this regard, the marginal rates were reduced at different slabs and the then prevailing maximum rate of 97.75 per cent (including surcharge) was lowered to 77 per cent. Simultaneously, the minimum exempted level of income attracting tax was raised from Rs. 5,000 to Rs. 6,000. A further simplification was effected in assessment procedures. Thus salaried tax-payers were allowed a standard deduction upto a maximum of Rs. 3,500 (at the rate of 20 per cent of the first Rs. 10,000 of the salaried income and 10 per cent of the balance exceeding Rs. 10,000) in the place of separate deductions hitherto allowed under certain heads. To reduce the burden on the tax administration and to save time for paying greater attention to assessment of larger incomes, filing of income tax returns was made optional in the case of persons with a salary income not exceeding Rs. 18,000. The anticipated loss in tax revenue in 1974-75 resulting from these changes estimated at Rs. 36 crores was expected to be recouped by better tax compliance and a fuller disclosure of taxable income by the assessees. To ensure that these concessions did not impair in any way the objective of achieving reduction in the existing disparities in income and wealth, the rates of wealth tax on certain slabs were raised and this measure would yield an additional revenue of Rs. 9.5 crores in 1975-76. To encourage substitution of coal in the place of petroleum products, incentives in the form of development rebate on installation of any machinery or plant for converting oil-fired boilers to coal-fired boilers were offered, provided if machinery would be installed before June 1, 1975. Another significant change made in the 1974-75 budget related to company taxation by which the rate of surtax was increased from 30 per cent to 40 per cent in respect of chargeable profits of companies exceeding 15 per cent of the amount of capital with a view to mopping up their windfall profits. A revenue of Rs. 5 crores was expected from this measure which would accrue from 1975-76. The development rebate, which was due to expire from the end of May, 1974 was extended by one more year, provided conclusive evidence could be shown that the purchase contracts for such plant and machinery were finalised before the end of 1973.

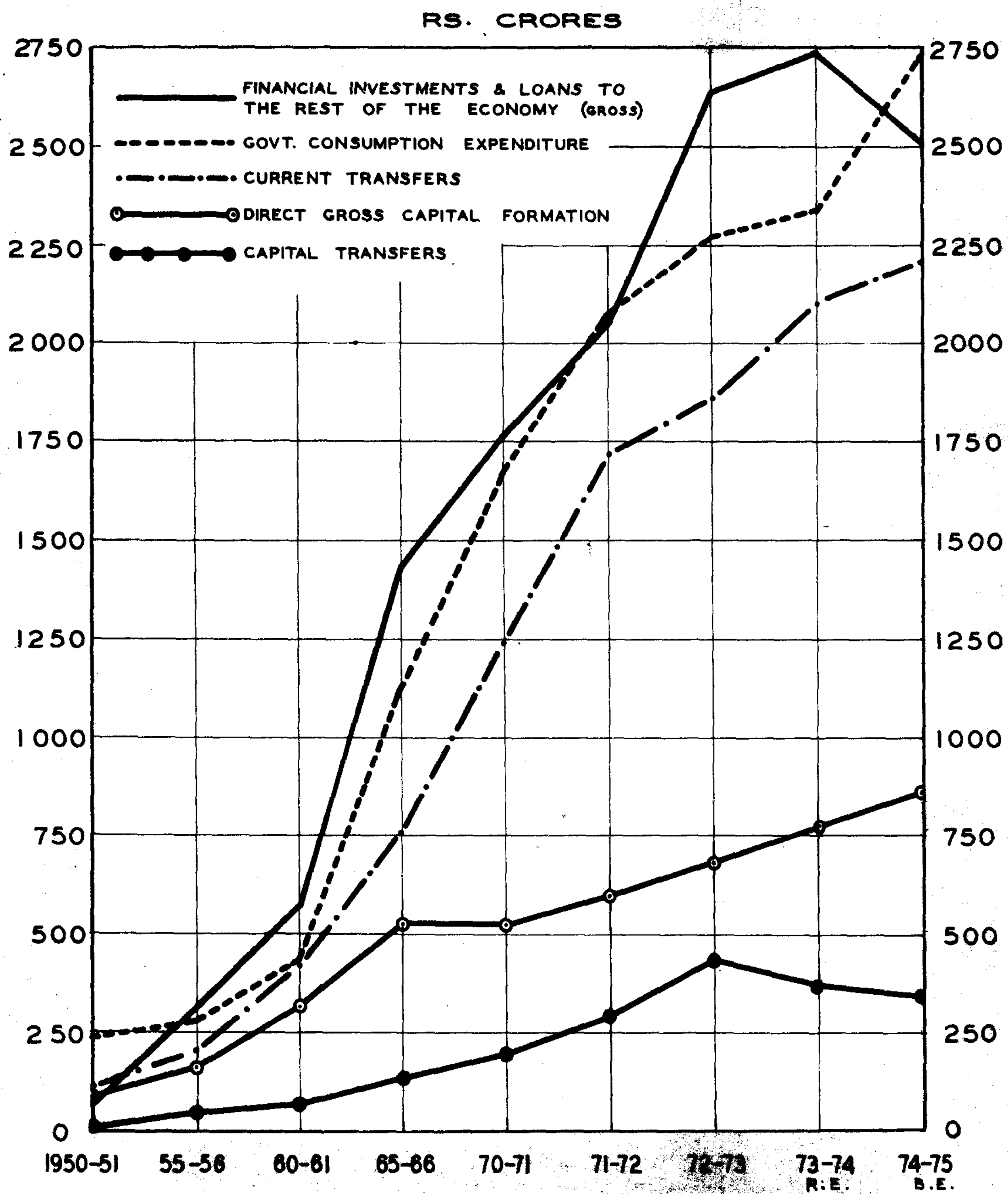
5.12 In the field of indirect taxation, the emphasis was to enlarge the tax base by bringing in more items within the tax net and simultaneously, enhancing the rates of duties on several items which are consumed by the more affluent sections of the community. The list of items covered by auxiliary excise duties was also enlarged to add 14 new items to the then existing 10 items. Likewise, duties on petroleum products were also enhanced to curb their consumption. Except for a marginal increase in the middle slab of auxiliary duties on imports from 10 per cent to 15 per cent, there was no other change of any significance in customs duties.

5.13 In sum, the overall picture emerging from the Central and State budgets for 1974-75 was that, the total budgeted expenditures would exceed their current revenues by Rs. 3589 crores and this would have to be met by a draft on internal private savings to the extent of Rs. 2,561 crores and of Rs. 887 crores on foreign savings, leaving an uncovered budgetary deficit of Rs. 141 crores to be met by recourse to borrowings from the Reserve Bank.

5.14 An economic and functional classification of the Central Government budget shows that both the consumption expenditure and provision for capital formation in 1974-75 (B.E.) would go up by 17.3 per cent and 13.2 per cent respectively as compared to a modest increase of 3.1 per cent and 4.1 per cent respectively, in the revised estimates for 1973-74.

CENTRAL GOVERNMENT EXPENDITURE

(ECONOMIC CATEGORIES)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIPND-PLW-323/5/Fin/74-75-chart 6

As regards the financing pattern, the reliance on foreign savings would increase from Rs. 286 crores in 1972-73 and Rs. 509 crores in 1973-74 (R.E.) to Rs. 887 crores in 1974-75 (B.E.) even though the gross savings of the Central Government and its departmental undertakings were expected to go up from Rs. 447 crores in 1972-73 to Rs. 572 crores in 1974-75 (B.E.). Expressed as a ratio of the Central Government's disposable income*, the net saving was estimated to rise from 12.4 per cent in 1972-73 to 12.8 per cent in 1973-74 (R.E.) and further to 13.7 per cent in 1974-75 (B.E.).

TABLE 5.2

Capital Formation by the Central Government and its financing

(Rs. crores)

	1972-73 (Accounts)	1973-74 (R.E.)	1974-75 (B.E.)
I. Gross capital formation out of budgetaty resources of the Central Government	**2,627**	**2,734**	**3,094**
(i) Gross capital formation by the Central Government	677	768	868
(ii) Financial assistance for capital formation to the rest of the economy	1,950	1,966	2,226
II. Gross savings by the Central Government	**447**	**510**	**572**
III. Deficit (i—II)	**2,180**	**2,224**	**2,522**
Financed by :			
IV. Draft on other sectors of the domestic economy	**1,894**	**1,715**	**1,635**
(i) Domestic capital receipts	1,063	1,065	1,510
(ii) Budgetary deficit	831	650	125*
V. Draft on foreign savings	**286**	**509**	**887**

*After taking into account the post-budget concession, the budgetary deficit was Rs. 126 crores.

NOTE : Gross capital formation in this table includes loans given for capital formation on a gross basis. Consequently domestic capital receipts include loan repayments to the Central Govenrnment.

5.15 The total development expenditure of the Central Government in terms of the above classification comprises both the outlay on capital formation as well as the current expenditure on social and economic services; according to the budget estimates, these two taken together would amount to Rs. 4244 crores in 1974-75, showing an increase of 10.3 per cent as against a decline of 2.5 per cent recorded in 1973-74 (R.E.). As a proportion of total expenditure, the expected development expenditure as computed above declined from 50.3 per cent in 1972-73 (Accounts) to 46.4 per cent in 1973-74 (R.E.) following the economy measures effected in August, 1973. In 1974-75 (B.E.), however, the development expenditure would form 49.0 per cent of the total expenditure.

5.16 A further strengthening of the inflationary forces, a disappointing rabi crop, followed by an unfavourable monsoon in the post-budget months confirmed that the economic situation would deteriorate further if additional corrective steps were not taken immediately. In the wake of the shortfall in foodgrains output, imports of foodgrains on commercial basis had to be arranged to maintain the public distribution system, making the earlier provision of Rs. 100 crores made for food subsidy inadequate. Likewise, the continuous increase in the Consumer Price Index resulted in successive instalments of dearness allowances falling due, thus making the budgetary provision of Rs. 120 crores made in this regard grossly insufficient. Additional provisions of Rs. 125 crores and Rs. 112 crores had to be made respectively, on these items. Additional requirements of the defence services, due to improvements in the emoluments of the defence personnel had to be met with a further allocation of Rs. 75 crores. Escalation in project costs due to the price rise, had to be met by providing an additional amount of Rs. 152 crores in respect of the core sector of the Plan so as to keep the physical content of the Plan unimpaired. Increased provision for interest payments became necessary in conformity with the general step-up in interest rates in the post-budget period. Since some of the States had been afflicted by natural calamities like floods and drought, it appeared that the Centre might have to help them out by increased assistance, although no provision was made in this regard. Furthermore, as a result of additional dearness allowance payments to staff, escalation in other costs and decline in earnings, the railways' deficit was also expected to increase to Rs. 299.6 crores.

5.17 Taking together all these impending increases in expenditure, it became obvious that the budgetary deficit would greatly exceed the original estimate of Rs. 126 crores in the Central budget, unless measures were taken to improve resources position and also to achieve further economies in expenditures wherever possible.

5.18 Thus, the deterioration in budgetary situation together with the unabated price rise compelled Government to take a series of anti-inflationary measures in July, 1974. In the difficult situation faced by the country, payment of large sums of money by way of additional wages and dearness allowance and increased spending power in the hands of certain classes of

*Tax revenues *plus* non-tax revenues *minus* current transfer payments.

income recipients would have only given an upward thrust to prices and would have further aggravated the inflationary situation. Thus, some effective steps were urgently necessary in order to break the vicious circle of money incomes chasing prices to curb inflationary pressures and promote savings, even though this might cause some temporary hardship to the sections of the community affected by these measures.

5.19 Accordingly, three Ordinances (since replaced by Acts of Parliament) were issued in early July, 1974 with a view to directly checking the expansion of demand through curtailing disposable income in the hands of certain classes of people. The Additional Emoluments (Compulsory Deposit) Ordinance, 1974 provided for compulsory deposit of whole of additional wages and salaries and half of additional dearness allowance. This covered nearly 18 million employees in the Government, public and private industrial sectors and was expected to result in an accretion of about Rs. 450 crores in the current year and about Rs. 550 to Rs. 600 crores in the next year. These funds will remain frozen with the Reserve Bank of India and will be repaid in five annual instalments (together with interest due thereon) from the expiry of the period for which the respective deposits are required to be made.

5.20 The Companies (Temporary Restrictions on Dividends) Ordinance, 1974 provided for limiting the after-tax profits distributed by companies to 33-1/3 per cent of such profits, or to 12 per cent of the face value of the equity shares of the company and the dividend payable on its preference shares, whichever is less. It is estimated that this scheme would lead to a reduction of nearly Rs. 60 crores in dividend payments and this amount will be available to companies for expansion or diversification. Following the curb on dividend distribution, it was also found necessary to impose certain restrictions on the frequency of issues of bonus shares. Accordingly, the time lag between two successive announcements of bonus shares by a company was increased from 18 to 40 months.

5.21 By a third Ordinance, a Compulsory Deposit Scheme was introduced covering all income tax payers whose aggregate net annual income exceeded Rs. 15,000. The rate of compulsory deposit prescribed was 4 per cent of the aggregate net annual income upto Rs. 25,000; Rs. 1,000 plus 6 per cent of the excess over Rs. 25,000 in the slab of Rs. 25,001—Rs. 70,000 ; and Rs. 3,700 plus 8 per cent of the excess over Rs. 70,000 in cases where income exceeds Rs. 70,000. The amount of deposits expected under the scheme is Rs. 50 crores in the current year and Rs. 55 crores in the next year. These deposits shall also remain immobilised with the Reserve Bank of India and will be repaid in five annual instalments (together with interest due thereon) commencing from the expiry of two years from the end of the financial year in which the deposit is made.

5.22 To supplement these anti-inflationary measures and to raise additional resources to meet the growing expenditure, a Second Finance Bill was presented to the Parliament on July 31, 1974. This Bill sought to raise additional resources of Rs. 136 crores in 1974-75 and Rs. 232 crores in a full year. Apart from raising the rates of union excise duties on a number of items leading to additional revenue of Rs. 110 crores in the current year, the highlight of this Bill was a novel monetary-fiscal measure in the form of a tax at the rate of 7 per cent on the gross interest earned by scheduled banks on loans and advances made in India. It was left to the banks to pass on the incidence of this tax (which was estimated to increase the rate of borrowing by one per cent on an average) to their borrowers. The revenue from this measure is expected to be Rs. 25 crores in the remaining months of 1974-75 and Rs. 60 crores in a full year. To syphon off some of the unintended profits made by indigenous producers of certain non-ferrous metals such as copper and zinc and manufactures thereof, excise duties were stepped up. Two more items, i.e., paper and cotton fabrics were also brought within the purview of the auxiliary excise levy.

5.23 In an effort to reduce the growing deficit in the railways' budget, railway fares and freight were further increased in August, 1974 to yield Rs. 140 crores in the remaining months of the current year and about Rs. 250 crores in a full year.

5.24 The additional resources mobilisation efforts at the Centre in the current year are expected to yield a total sum of Rs. 690 crores in the current year and of about Rs. 935 crores in a full year. In this context, it is interesting to note that the five year yield of these measures would be more or less equal to the target of additional resource mobilisation, set in the Draft Fifth Plan for the Centre. Concurrently, measures to effect additional economies in expenditure were also mooted and the decisions taken so far are likely to result in a saving of about Rs. 200 crores.

5.25 The trends in the collections of major central taxes so far indicate that whereas the revenue from customs duties may register a substantial increase over the budget estimates, the revenue from union excise duties might show a shortfall due to a slow growth in industrial output. The collections from income and corporation taxes may be in accordance with the budgetary anticipations or even show some marginal improvements. As for capital receipts, the market borrowing programme has resulted in raising a net amount of Rs. 494 crores as against Rs. 498 crores envisaged in the Central budget. The net collections from Small Savings are also expected to be higher than the budget estimate of Rs. 360 crores. There is also a likelihood of external assistance exceeding the budget expectations.

5.26 After the presentation of their budgets, several State Governments have taken further steps to improve their resource position. Their market borrowings have also been higher than originally expected. On the other hand, some States are required to spend more on relief expenditures as well as on emoluments to their employees.

5.27 Taking all factors into account, it would appear that the overall deficit at the Centre and the States in the current year would be larger than Rs. 141 crores anticipated at the time of the presentation of the Budgets for 1974-75. The persistence of a large budget deficit, despite a massive additional resource mobilisation of Rs. 1048 crores by the Centre and States taken together in a single year, (which in a full year would amount to Rs. 1475 crores) is indicative of the combined impact of inflation and stagnation of real output on government finances.

Finances of State Governments* in 1974-75

5.28 The budgets of the State Governments for 1974-75, like that of the Central Government, have also been faced with the difficulties of financing the rising costs of administration and developmental activities resulting from inflation. In their case, however, increased expenditures have been cushioned to a considerable extent by the devolution of resources under the Sixth Finance Commission's Award in the form of statutory grants as well as by the rescheduling of their debts to the Centre as recommended by the Commission. Compared with 1973-74, such additional transfers in 1974-75 are placed at Rs. 760 crores—Rs. 410 crores on account of debt relief and Rs. 350 crores in respect of statutory grants. However, what is noteworthy in this year's States' budgets is the comparatively greater efforts made by them in mobilising additional resources which should impart a better balance to their budgetary position than hitherto.

5.29 An analysis of the State budgets reveals that their combined expenditure in 1974-75 (B.E.) would show an increase of 4.1 per cent compared to an increase of 12.6 per cent in the revised estimates for 1973-74. The developmental expenditure budgeted at Rs. 5069 crores for 1974-75 shows an improvement of 8.4 per cent† as compared to almost a similar increase (9.3 per cent) recorded in 1973-74 (RE). In contrast to the increase of 20.7 per cent in non-developmental expenditure noticed last year, the budgeted non-developmental expenditure of Rs. 2,040 crores for 1974-75 shows a decline of 5.3 per cent over the previous year. The main factors responsible for this welcome change are a steep decline in the budgetary provisions for expenditure on account of natural calamities (from Rs. 362 crores in 1973-74 to Rs. 55 crores in 1974-75) and the appropriation for 'reduction or avoidance of debt' (from Rs. 275 crores in 1973-74 to Rs. 144 crores in 1974-75).

5.30 The current revenues of the States (including the yield from measures taken for mobilisation of additional resources) in 1974-75 are budgeted at Rs. 5758 crores and show an increase of about 11 per cent, i.e. the same as recorded in the preceding year. While the growth in the States' own tax revenues in 1974-75 is expected to be 13.9 per cent as against 14.4 per cent in the preceding year, their total tax revenues are expected to go up by only 9.7 per cent because of lack of any significant improvement in their share of Central taxes; in 1973-74, on the other hand, the growth in the total tax revenues of the States was as high as 13.1 per cent. It may be of interest to note that in the current year, the growth in States' own tax revenue at 13.9 per cent is much higher than the growth of 8.8 per cent to be recorded in the Centre's tax revenues (before deducting the share of the States). This presumably reflects the effect of a sharp rise in general price level on States' tax revenues whose tax structure is predominantly oriented towards taxes on commodities and services. As regards non-tax revenues (other than surpluses/deficits of States' non-departmental commercial undertakings), the receipts in 1974-75 are expected to be higher by about 12 per cent as against an increase of 7.4 per cent in the preceding year.

5.31 Some States have taken steps to raise additional resources from the agricultural sector which generally carries a much lighter tax burden than income from other activities. Nevertheless, overall progress in this area is still insignificant. No State has so far shown any initiative to implement the report of the Raj Committee on Taxation of agricultural Wealth and Income. The States' revenue from land revenue and agricultural income tax during the current year shows only a marginal increase, from Rs. 156 crores in 1973-74 (RE) to Rs. 161 crores in 1974-75 (BE). In the field of indirect taxation all the major taxes are expected to be buoyant in 1974-75. The tax net in the current year has been widened by introducing a new tax on accommodation in luxury hotels. It is encouraging to note that current year's budgets show a decline in the overall losses of the departmental undertakings (viz., the excess of working expenses including interest on capital employed over the receipts) from Rs. 36 crores in 1973-74 (RE) to only Rs. 4 crores. However, it has to be observed that the performance has not been uniform in respect of all undertakings. While the surpluses from forests, and mines and minerals have increased, and the losses of multipurpose river schemes have shown a decline, irrigation (commercial) and electricity schemes continue to incur losses.

5.32. The grants from the Centre to the States, both on plan and non-plan accounts, have been showing an upward trend and in their 1974-75 budgets, the States have taken credit for Rs. 1121 crores as against Rs. 1041 crores in 1973-74 (RE). The absence of Central grants for natural calamities has been compensated, by and large, by the increase (from Rs. 131 crores in 1973-74 to Rs. 482 crores in 1974-75) in statutory grants recommended by the Sixth Finance Commission. Even so, as a proportion of their current receipts, the share of Central grants in 1974-75 has come down to 19.5 per cent, from 20.4 per cent in 1972-73. Likewise, because of a considerable decline in loan assistance to States, the total transfer of resources from the Centre to the States has

*Including the Union Territories with legislature.

†The percentage increase would be less if adjustment is made for the change in the Plan concept of working out the surpluses of public undertakings.

been lower at 40.3 per cent of the States' total receipts in 1974-75 than in the revised estimates of 1973-74.

5.33. Despite additional resource mobilisation of Rs. 155 crores in the 1974-75 budgets, the States had to mobilise further resources in the post-budget period for meeting the increased cost of projects, for relief expenditure on account of droughts and floods, and for grant of dearness allowances to their employees. The total of these measures together with the measures taken at the time of the presentation of the budgets aggregates Rs. 358 crores for the current year and nearly Rs. 540 crores in a full year. Many States have also revised their electricity tariffs and irrigation rates and, in addition to withdrawing exemptions on land revenue, have also raised the surcharges on it. Although efforts in the current year for resource mobilisation look impressive and over the five-year period might almost yield the Fifth Plan target of Rs. 2550 crores set for the States in this respect, a large proportion of these resources might be pre-empted by non-plan expenditure. Thus vigorous efforts will need to be made if the physical targets of the Fifth Plan are to be met. In this context, the need for a determined effort to tax the farm sector, earning of adequate profits from State commercial enterprises and greater vigour in collecting arrears of taxes and interest and instalments of overdue loans and advances cannot be over-emphasised.

5.34 The gap between the total outlays of the States and their revenues is expected to be narrowed down to Rs. 1351 crores in 1974-75 (BE) as compared to the gap of Rs. 1655 crores estimated for 1973-74. This gap in the current year is to be met almost wholly by way of capital receipts (including loans from the Centre and repayment of loans by third parties), leaving a deficit of only Rs. 15 crores; this compares very favourably with the budget deficit of Rs. 140 crores in the revised estimate for 1973-74*

Performance of Public Sector Undertakings

5.35. The Draft Fifth Plan has projected the public autonomous undertakings' saving to grow from 1.3 per cent of GNP in 1973-74 to 2.4 per cent in 1978-79. In the past, the performance of these undertakings has left much to be desired and viewed against this back-ground, the achievement of saving rate set for them in the Plan would require more strenuous efforts than ever before on their part to improve their operational efficiency and to earn a higher return on the invested capital. More realistic pricing policies may also make a significant contribution to increasing the internal resources of the public sector enterprises.

5.36 Fortunately, there is growing evidence that despite such odds as power cuts, shortage of crucial raw materials, labour unrest, transport bottleneck, etc., the performance of a large number of public sector undertakings is tending to improve, particularly since 1973-74. Provisional data relating to non-departmental commercial undertakings of the Central Government reveal that the total net profit (before tax) of the 118 public sector undertakings in operation on March 31, 1974 amounted to Rs. 150.15 crores in 1973-74 as compared to Rs. 83.95 crores in 1972-73 by 101 running concerns. This has resulted from a net profit of Rs. 246.56 crores earned by 77 enterprises and a loss of Rs. 96.41 crores incurred by 41 undertakings. Among the profit (pre-tax) earning enterprises, the most prominent were Indian Oil Corporation (Rs. 30.81 crores), Bharat Heavy Electricals (Rs. 27.00 crores), the Shipping Corporation of India (Rs. 14.88 crores), Oil and Natural Gas Commission (Rs. 24.51 crores), Hindustan Steel (Rs. 4.71 crores) and Madras Refineries (Rs. 6.71 crores) ; and those which have sustained losses, in particular, are Heavy Engineering Corporation (Rs. 7.30 crores), Neyveli Lignite Corporation (Rs. 12.16 crores) and Bokaro Steel Ltd. (Rs. 10.43 crores). It may be noted that the last mentioned enterprise is not fully commissioned. The losses incurred by the enterprises are partly attributable to lower utilisation of installed and developed capacities. During 1973-74, 34 enterprises declared dividends amounting to Rs. 13.29 crores at rates varying from one per cent to twelve per cent as against a total dividend of Rs. 17.15 crores declared by 31 enterprises during 1972-73.

5.37 Another measure of profitability of Central Government public sector undertakings is the return on capital employed i.e., ratio of gross profits (after providing for working expenses and depreciation but before deducting interest and tax liability) to capital employed and this is estimated to have been around 5.2 per cent in 1973-74, which is about the same as in 1972-73.

5.38 Based on the provisional operating results reported by the public sector enterprises for the first half of 1974-75, it is anticipated that their profits before tax for 1974-75 would be of the order of Rs. 273.24 crores. On present indications, a number of public sector undertakings are likely to achieve substantially the physical targets set for the year and accordingly, the overall performance of the public sector as a whole might show considerable improvement in 1974-75.

5.39 The Railway finances have been under strain for quite some time, as is evident from the fact that as against an anticipated surplus of Rs. 24 crores in the Budget for 1973-74, the revised estimates for that year reveal a deficit of Rs. 99.75 crores. This outturn in the railways' finances in 1973-74 was due to a steep decline of Rs. 75 crores (or about 10 per cent) in their earnings from goods traffic, following a decline in freight carried by 7 million tonnes and a decline of Rs. 18 crores in their passenger and other coaching earnings. In addition there was an increase of about Rs. 35 crores in their working expenses, mainly on account of the implementation of the recommendations of the Third Pay Commission. The Railway Budget for 1974-75 had been prepared on the assumption that the goods traffic to be carried during the year would be about 217 million tonnes. Allowing for this and even after taking credit for Rs. 136.38 crores from the revision in fares and freights, the emerging deficit had been anticipated at Rs. 52.79 crores. In the event, since the anticipated

*The final accounts for 1973-74 reveal that the actual deficit in that year was Rs. 175 crores.

level of increase in goods traffic was not materialising and further increases in expenditures on account of the implementation of Miabhoy Award, sanction of several instalments of dearness allowance, additional cost of fuel etc., became inevitable, there was a further deterioration in the revenue position. In the absence of suitable remedial measures, the cumulative impact of all these factors would have raised the estimate of the railway deficit to a staggering figure of Rs. 299.6 crores. In order to cover a part of this huge gap, a supplementary railway budget was presented to the Parliament on August 21, 1974 with proposals to revise fares and freights yielding a net provenue of Rs. 140.1 crores. Besides some economy measures were also taken to supplement these proposals and thereby bring down the railway deficit to Rs. 109.1 crores which would be covered by borrowings from the General revenues.

5.40 The finances of posts and telegraphs, on the other hand, continued to show a healthy surplus although there was some set back in the size of this surplus in 1973-74. As against the surplus of Rs. 37 crores in 1972-73, the surplus in 1973-74 (RE) was only Rs. 11 crores and showed a deterioration of Rs. 40 crores over the budget estimates. However, following the upward revision in the postal and telecommunication tariffs in the 1974-75 budget, which is expected to yield an additional amount of Rs. 42.8 crores in the current year (or about Rs. 57 crores in a full year), the surplus of posts and telegraphs is again likely to go up to Rs. 65 crores in 1974-75 (BE).

5.41 The overall performance of departmental undertakings of the State Governments continues to be unsatisfactory in the current year. The losses of irrigation (commercial) and multipurpose river schemes alone are in the vicinity of Rs. 150 crores annually, and they are not able to meet even their working expenses, let alone the interest on working capital and an adequate provision for the depreciating assets. The working results of the State Electricity Boards are also none too happy. The rate of return on capital employed (after meeting working expenses and depreciation) has remained much below the norm (11.0 per cent, including 1.5 per cent of electricity duty) laid down by the Venkataraman Committee.

5.42 Although several States have taken measures in 1974-75 to raise electricity rates, it is doubtful whether these revisions would lead to a significant improvement in the financial position of State Electricity Boards since the operational costs have also risen in the wake of rising prices and grant of dearness allowances to their employees. In this context, it needs to be stressed that there is considerable scope for effecting economies in operational costs as well as for reducing transmission losses. If the electricity boards can overcome these problems and this is accompanied by a more rational tariff policy, these undertakings can be made financially viable.